

# Kentucky Teachers' Retirement System



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## *“An Overview of the Kentucky Teachers’ Retirement System”*

*Information prepared for:*  
**2007 Blue Ribbon  
Commission**  
on Public Employee  
Retirement Systems

# Kentucky Teachers' Retirement System



*Established in 1938,  
KTRS provides*

**Retirement Security**

*For Kentucky's Educators*

# Kentucky Teachers' Retirement System

## *A Brief History*

- In 1936, the University of Kentucky studied the possible need for a retirement system for teachers and concluded:
  - Teachers could not afford to retire.
  - School districts were faced with continued employment of teachers unable to perform effectively.
  - Teachers were not allowed to participate in Social Security.
  - Kentucky was finding it hard to attract and retain teachers.
- KTRS was established in 1938 and funded by the General Assembly in 1940.



*KTRS was established by the General Assembly in 1938 and funded in 1940*

**A Defined Benefit Group Retirement Plan was established to provide retirement benefits for local school districts and other public educational agencies in the state.**

***Current employers comprised of:***



***175 local school districts***



***17 Department of Education Agencies***



***Five Regional Universities & all Community Colleges***



***KCTCS***

# *KTRS is unique when compared to other public pension plans*

- Most members are not subject to Social Security.
- By statute, there is a fixed employer contribution rate.
- Retiree health care benefits are provided.
- COLAs are funded.
  - Base COLA of 1.5% is pre-funded.
  - Ad Hoc COLAs, if awarded, are funded in the biennial budget process.



# ***KTRS is a comprehensive Defined Benefit Group Retirement Plan***

## **Benefits Summary**

### **Active Member Benefits**

- Provides benefits in the event members become disabled.
- Provides benefits to survivors in the event of members deaths.
- Life insurance benefit of \$2,000.

# ***KTRS is a comprehensive Defined Benefit Group Retirement Plan***

## **Benefits Summary**

### **Retired Member Benefits**

- Defined benefit group retirement plan with lifetime guaranteed retirement benefits.
- Life insurance benefit of \$5,000.
- Annual cost-of-living increases (COLA).
  - 1.5% included in current contribution rates.
  - Ad hoc COLAs when approved in the biennial budget process.
- Retiree medical benefits.

# Calculation of Retirement Benefits

## 1. Retirement with 27 years of service

- General Benefit formula =  
*Years of Service x multiplier x 5 highest salaries*

## 2. Multiplier of 2.0/2.5%/3.0% (for new hires after July 1, 2002)

## 3. High 3 salaries at age 55 and 27 years of service

- *Discounted retirement allowance for members with less than 27 years of service and less than age 60, but at least age 55.*



# Field of Membership *as of December 2006*

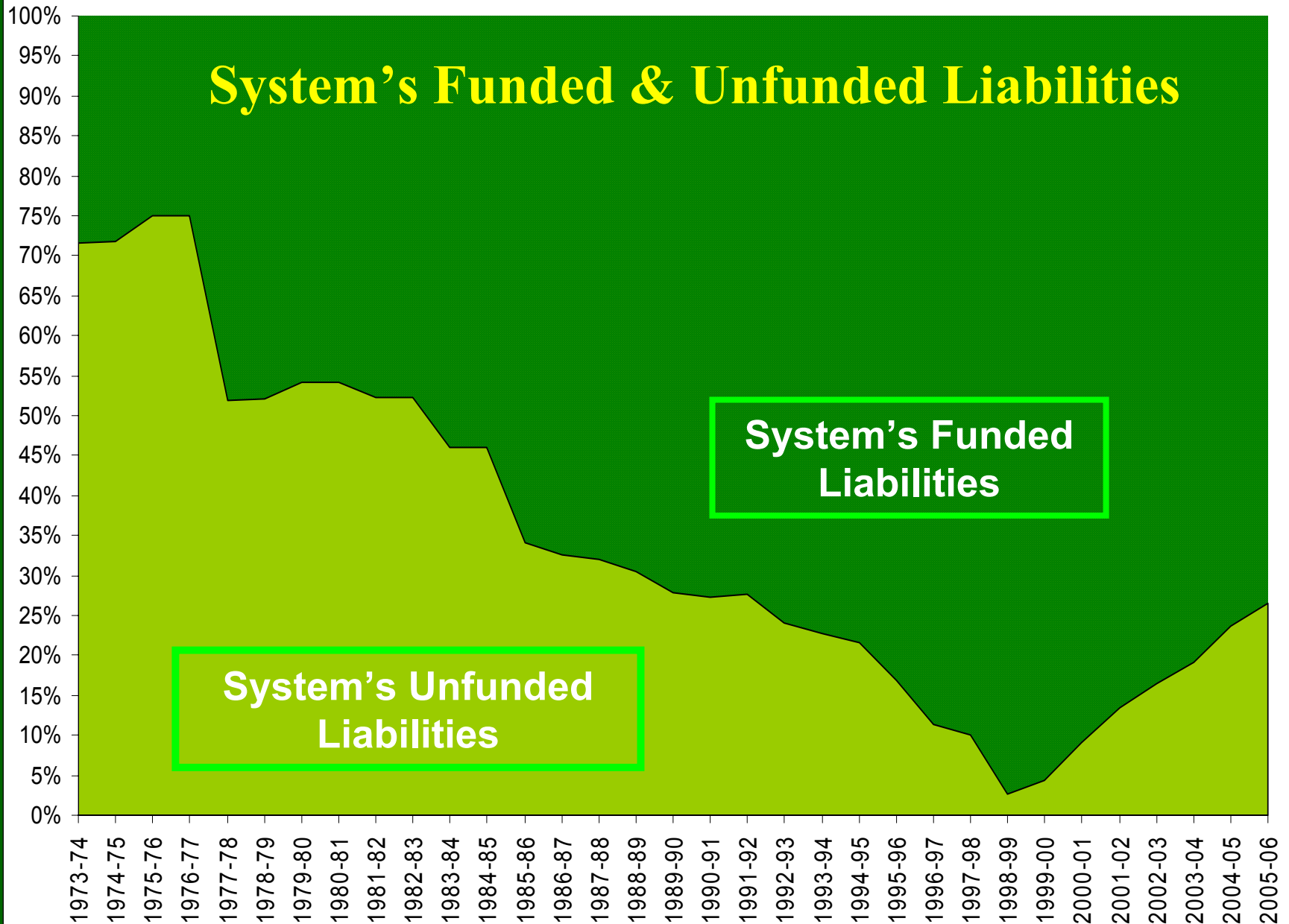
<b>Active</b>	<b>0 – 26 Years    Non-eligible</b>	<b>44,269</b>
	<b>27+ Years*    Eligible</b>	<b><u>14,004</u></b>
	<b>Total Active</b>	<b>58,273</b>
	<b>Sub/PT/Retired Return to Work</b>	<b><u>15,042</u></b>
	<b>Total Contributing Members</b>	<b>73,315</b>
<b>Inactive . . . . .</b>		<b>16,642</b>
<b>Retired, Beneficiaries &amp; Survivors . . . . .</b>		<b>39,332</b>
<b>Total . . . . .</b>		<b>129,289</b>

*\* and/or age 55 with 5 or more years of service within the next fiscal year*

## Recap of Actuarial Status of the System at June 30, 2006

	Assets	Liabilities	Unfunded	Percent
<i>Pre-funded</i>				
<b>Retirement Benefit</b>	14,857.6	20,324.8	5,467.1	73.1%
<i>Pay-as-you-go</i>				
<b>Medical Benefit</b>	131.6	4,341.9	4,210.3	3.0%
	14,989.2	24,666.7	9,677.4	

# System's Funded & Unfunded Liabilities

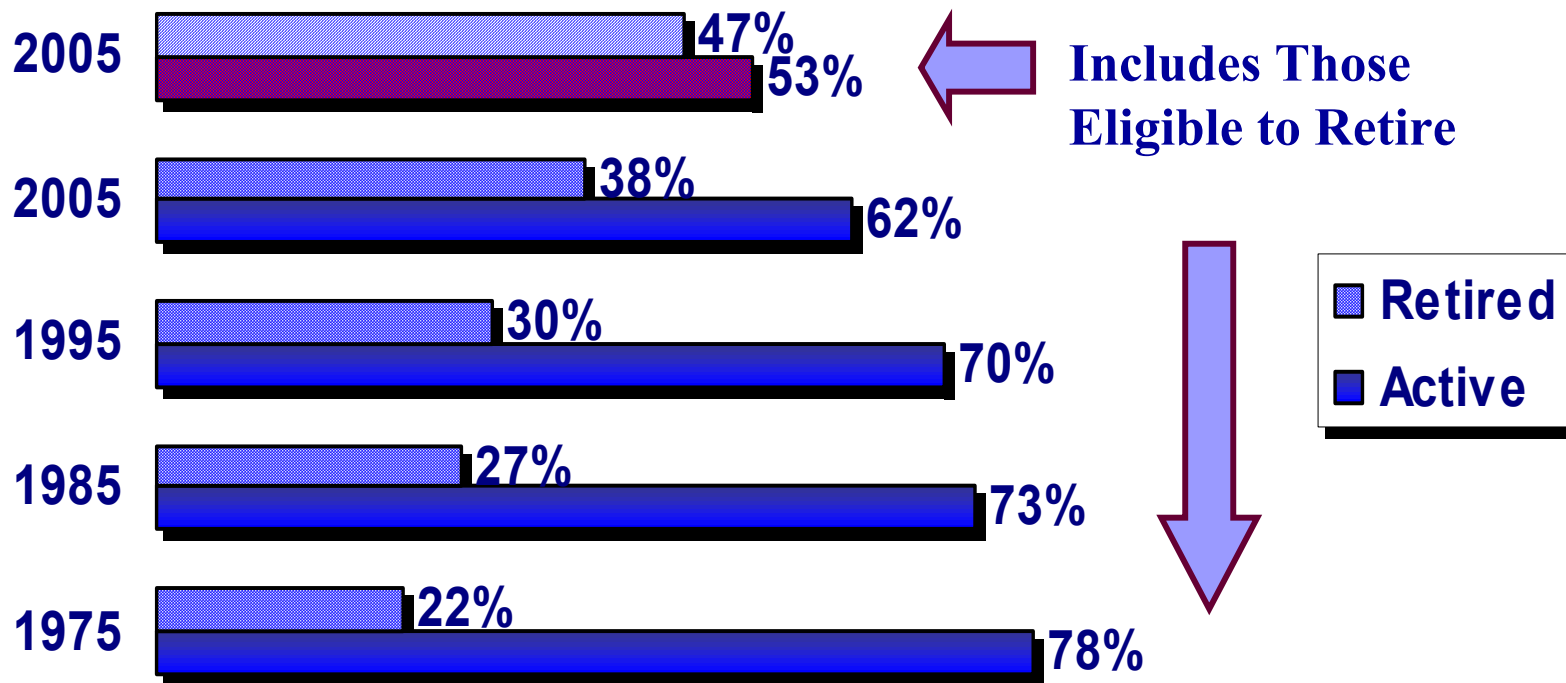


# Review of Kentucky Retired Teachers' Health Benefits

## KTRS Medical Benefit

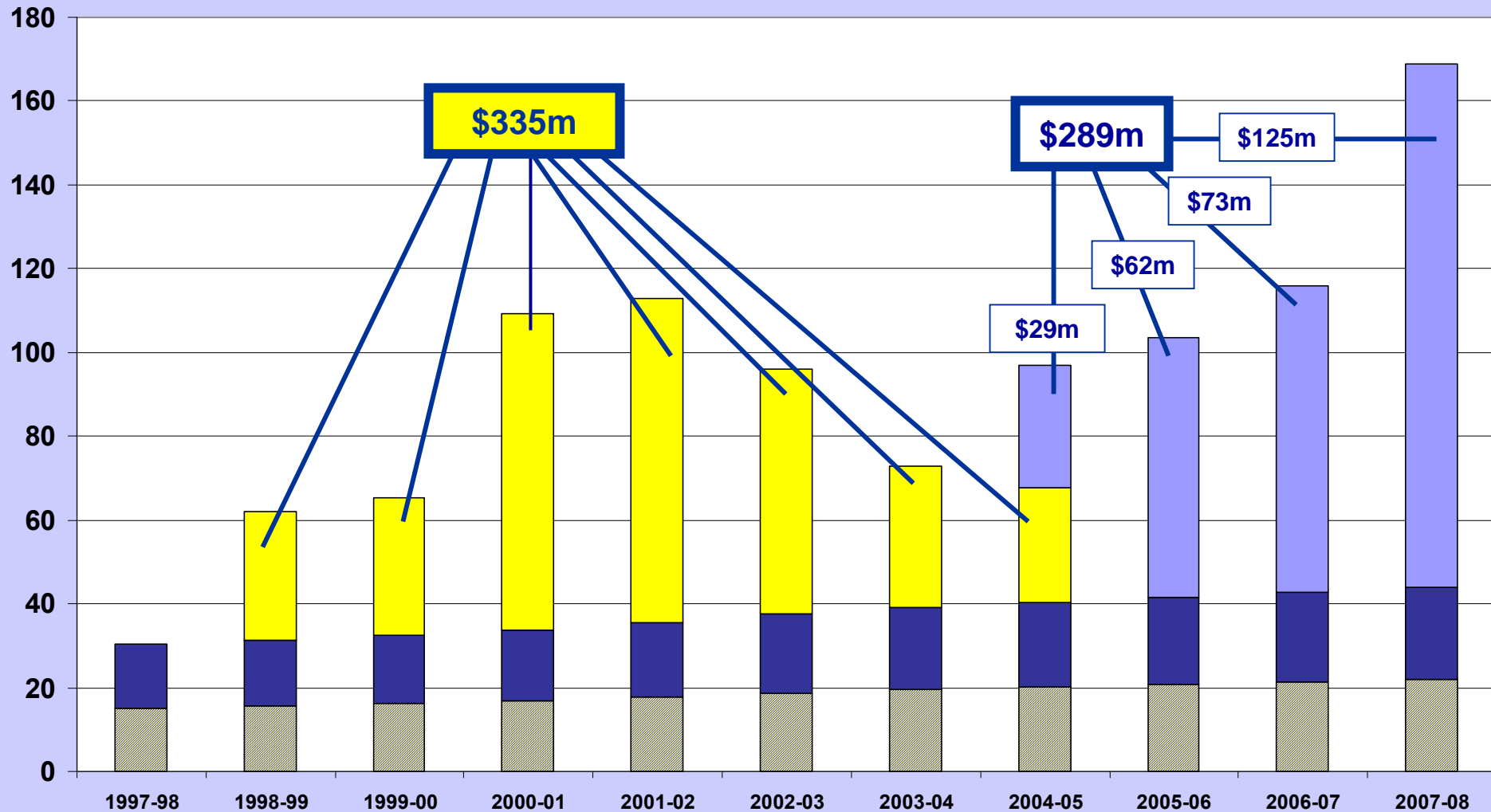
- Funding for retiree medical insurance is on a pay-as-you-go basis (started in 1964).
- $\frac{3}{4}$  of 1% member contribution +  $\frac{3}{4}$  of 1% employer contribution = 1.5% of payroll.
- Medical costs have increased as well as number of covered retirees.
- To continue funding through 2008, the Commonwealth will borrow \$289 million from the KTRS Pension Fund.
- Need for medical insurance funding to be in the General Budget in lieu of borrowing from the KTRS Pension Fund.

# Ratio of Active Teachers to Retired Teachers



	1975	1985	1995	2005	2005
Retired	22%	27%	30%	38%	47%
Active	78%	73%	70%	62%	53%

# Primary Funding for Medical Insurance Fund



## Member Contribution

*¾ of 1% of  
member  
salary*



## State Match

*Equals  
member  
contribution*



## Redirected Retirement Contributions



## Borrow from Retirement Contributions





# Actuarial Update

## KTRS Pension Fund:

- Is actuarially sound.
- Borrowing from the Pension Fund to sustain retiree medical insurance does impact actuarial soundness.
- Most recent actuarial report informed KTRS of need for an employer contribution increase in the 2008 Regular Session from 1.32% to 1.88%.

# Schedule of Employee/Employer Contribution Rates

## *FY ending June 2009*

### Local School Districts/KCTCS/Dept of Ed/Other (Non-University)

	<i>Employee</i>	<i>Employer</i>	<i>Total</i>	<i>Salaries FY 2006</i>
Fixed Contribution by Statute	9.855%	13.105%	22.960%	
State Special		4.250%	4.250%	
Required Increase		1.880%	1.880%	
Total	9.855%	19.235%	29.090%	2,683,342,000
<b>Social Security</b>	0.000%	0.000%	0.000%	-
Total	9.855%	19.235%	29.090%	2,683,342,000

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### University

	<i>Employee</i>	<i>Employer</i>	<i>Total</i>	<i>Salaries FY 2006</i>
Fixed Contribution by Statute	8.375%	11.625%	20.000%	
State Special		4.250%	4.250%	
Required Increase		1.880%	1.880%	
Total	8.375%	17.755%	26.130%	176,135,000
Social Security	6.200%	6.200%	12.400%	176,135,000
Total	14.575%	23.955%	38.530%	176,135,000

# **Review of Kentucky Retired Teachers' Health Benefits**

**Kentucky Retired Teachers' Health Insurance is provided in two plans:**

- **Kentucky Employees Health Plan (KEHP)**  
For Retirees Under Age 65
- **Medicare Eligible Health Plan (MEHP)**  
For Retirees Age 65 & Over

# **Review of Kentucky Retired Teachers' Health Benefits**

## **KEHP**

Plan includes:

- school district employees
- state employees
- some local government employees
- teacher retirees under age 65
- state, county & city retirees under age 65
- Plan moved to self-insurance in 2006

# Kentucky Teachers' Retirement System

## Cost of Single Coverage-KEHP

2004		286.16	
2005	43.2%	409.86	
2006	19.3%	488.96	
<i>Legislature lowered premium</i>	-12.2%	432.00	
2007	8.8%	457.70	
2008 <i>actuarial projection</i>	10%	503.00	

# Review of Kentucky Retired Teachers' Health Benefits

## MEHP

- ❖ Self-Insured Plan since 1992.
- ❖ Consists of two components-medical benefits & drug benefits
- ❖ Medical benefits delivered by Humana, drug benefits delivered by Medco.
- ❖ Premiums in 2006 were \$315/month.
- ❖ Premiums in 2007 are \$283/month.



# **Review of Kentucky Retired Teachers' Health Benefits**

## **MEHP**

### **Recap Medical Benefits**

- ❖ Moved to Medicare Advantage PFFS plan January 2007/mirrors self-insured plan.
- ❖ Member pays Medicare Part B Premium.
  - ❖ \$93.50 per month out-of-pocket.
- ❖ Medicare subsidizes ~90%.
- ❖ KTRS pays fixed premium.
- ❖ Member pays 4%.

# *Review of Kentucky Retired Teachers' Health Benefits*

## **MEHP**

### **Recap Medical Benefits**

#### ❖ Retail

- ❖ Three-tier incentive formulary
- ❖ 20% generic/brand formulary at retail
- ❖ 35% brand/non-formulary at retail
- ❖ \$150 annual retail deductible

#### ❖ Home Delivery

- ❖ \$10 generic copay for 90-day supply
- ❖ \$20 brand formulary
- ❖ \$35 non-formulary
- ❖ No annual deductible

# **KTRS Major Efforts to Contain Retirement and Healthcare Costs**

**1992**

- **Self-insurance used for retirees.**

**1998**

- **Air-time purchases at full actuarial cost.**
- **High 3 at age 55 with 27 years of service.**

**2001**

- **Eliminated double-dipping of medical benefits.**

# ***KTRS Major Efforts to Contain Retirement and Healthcare Costs***

## **2002**

- **Medical insurance benefit reduced for new hires.**
- **Return-to-work salaries limited after required breaks-in-service.**
- **Limit on number of retirees that can return full-time.**

# ***KTRS Major Efforts to Contain Retirement and Healthcare Costs***

***2002 continued ...***

- **Benefit multipliers lowered for new hires.**
- **Field of membership significantly expanded.**
- **Disability retirement reformed.**

**2004**

- **Service credit purchases moved to full actuarial cost.**

## Kentucky Teachers' Retirement System

# Retirement Trends

### *Analysis of June, July & August Retirements* **2001 vs. 2006**

	<b>2001</b>			<b>2006</b>		
<b>SERVICE</b>	Average Age	Count	Percent	Average Age	Count	Percent
<b>&lt; 27 years</b>	<b>59</b>	<b>236</b>	<b>15%</b>	<b>60</b>	<b>234</b>	<b>20%</b>
<b>27 – 27.99 years</b>	<b>52</b>	<b>529</b>	<b>35%</b>	<b>54</b>	<b>319</b>	<b>26%</b>
<b>28 + years</b>	<b>55</b>	<b>770</b>	<b>50%</b>	<b>56</b>	<b>629</b>	<b>54%</b>
	<b>54</b>	<b>1,535</b>	<b>100%</b>	<b>56</b>	<b>1,182</b>	<b>100%</b>



# ***KTRS Major Efforts to Contain Retirement and Healthcare Costs***

## **Two Federal Programs Utilized to Save Medical Costs in the MEHP Program**

**2006**

- **Medicare Prescription Part D.**
  - **Saves over \$10 million annually.**

**2007**

- **Medicare Advantage Private Fee For Service.**
  - **Saves over \$11 million annually.**

## **Board of Directors**

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KTRS joined with other retirement systems to form the **Public Sector Healthcare Roundtable** to address retiree health care costs on a national level.

**<http://www.healthcareroundtable.org>**

# The Average Career Educator

- Retires at age 56.
- With 30 years service.
- With a pension equal to 72% of their final average salary.
- With a medical benefit on a pay-as-you-go basis.
- **Does not have a social security benefit.**

**High School**  
**Certified Salary Schedule 2006-07**  
**2%**

Exp.	Rank III	Rank II	Rank I	Rank IAA	Rank IV
0	\$ 30,397	\$ 34,430	\$ 38,671	\$ 39,284	\$ 27,771
1	\$ 31,266	\$ 35,029	\$ 39,215	\$ 39,880	\$ 27,771
2	\$ 32,136	\$ 35,626	\$ 39,813	\$ 40,478	\$ 27,771
3	\$ 33,005	\$ 36,223	\$ 40,409	\$ 41,074	\$ 27,771
4	\$ 33,874	\$ 36,820	\$ 41,004	\$ 41,672	\$ 27,771
5	\$ 34,744	\$ 37,418	\$ 41,602	\$ 42,270	\$ 27,771
6	\$ 35,614	\$ 38,014	\$ 42,198	\$ 42,867	\$ 27,771
7	\$ 36,484	\$ 38,612	\$ 42,796	\$ 43,463	\$ 27,771
8	\$ 37,354	\$ 39,209	\$ 43,393	\$ 44,060	\$ 27,771
9	\$ 38,246	\$ 39,804	\$ 43,992	\$ 44,658	\$ 27,771
10	\$ 39,138	\$ 40,401	\$ 44,587	\$ 45,264	\$ 27,771
11	\$ 39,834	\$ 40,999	\$ 45,193	\$ 45,879	\$ 27,771
12	\$ 40,316	\$ 41,596	\$ 45,806	\$ 46,490	\$ 27,771
13	\$ 40,797	\$ 42,193	\$ 46,420	\$ 47,104	\$ 27,771
14	\$ 41,277	\$ 42,791	\$ 47,032	\$ 47,716	\$ 27,771
15	\$ 41,760	\$ 43,388	\$ 47,645	\$ 48,331	\$ 27,771
16	\$ 42,239	\$ 43,986	\$ 48,258	\$ 48,944	\$ 27,771
17	\$ 42,722	\$ 44,582	\$ 48,871	\$ 49,558	\$ 27,771
18	\$ 43,202	\$ 45,187	\$ 49,485	\$ 50,170	\$ 27,771
19	\$ 43,684	\$ 45,800	\$ 50,098	\$ 50,783	\$ 27,771
20	\$ 44,164	\$ 46,412	\$ 50,711	\$ 51,397	\$ 27,771
21	\$ 44,645	\$ 47,026	\$ 51,324	\$ 52,009	\$ 27,771
22	\$ 45,133	\$ 47,639	\$ 51,938	\$ 52,623	\$ 27,771
23	\$ 45,629	\$ 48,252	\$ 52,551	\$ 53,236	\$ 27,771
24	\$ 46,121	\$ 48,866	\$ 53,164	\$ 53,848	\$ 27,771
25	\$ 46,615	\$ 49,480	\$ 53,778	\$ 54,462	\$ 27,771
26	\$ 47,110	\$ 50,093	\$ 54,390	\$ 55,076	\$ 27,771
27	\$ 47,672	\$ 50,654	\$ 54,953	\$ 55,536	\$ 27,771

Salary Schedule was adopted by the  
on 06/05/06  
Effective July 1, 2006

School Board

**Salary  
Schedule**

*Showing  
typical  
teacher salary  
per year of  
service for  
2006-07  
school year.*

# Membership Analysis

*August 2005 – July 2006*

	Retirees for the period	New Hires for the period
Average beginning teaching age	27	31
Average contract salary	\$57,110	\$34,631
Average age at retirement	56	N/A
Average retirement benefit	\$34,459	N/A

# **Savings to Local Districts and Other Employers**

<b>Average Retiring Members Pay</b>	<b>\$57,110</b>
<b>Average New Full-time Members Pay</b>	<b>\$34,631</b>
<b><i>----- Difference -----</i></b>	<b>\$ 22,479</b>
<b>Number of Members Eligible to Retire</b>	<b>14,004</b>
<b>Savings to Local Districts &amp; Other Employers</b>	<b>\$315 Million per year</b>



# Positive Impact of KTRS

- ❖ *For Members*
- ❖ *For School Districts*
- ❖ *For State & Local Economies*

# For Members

- **Provides retirement security for those who have devoted their careers to teaching.**
  - A life-time retirement benefit determined by the member's length of service and salary.
  - A medical benefit provided on a pay-as-you-go basis.



# For School Districts

- ❖ Provides a benefit to attract and retain quality teachers.
- ❖ When teachers retire, this provides positions for new teachers and promotions for current teachers.
- ❖ When teachers retire, this reduces payroll costs as retiring teachers are replaced by new teachers.



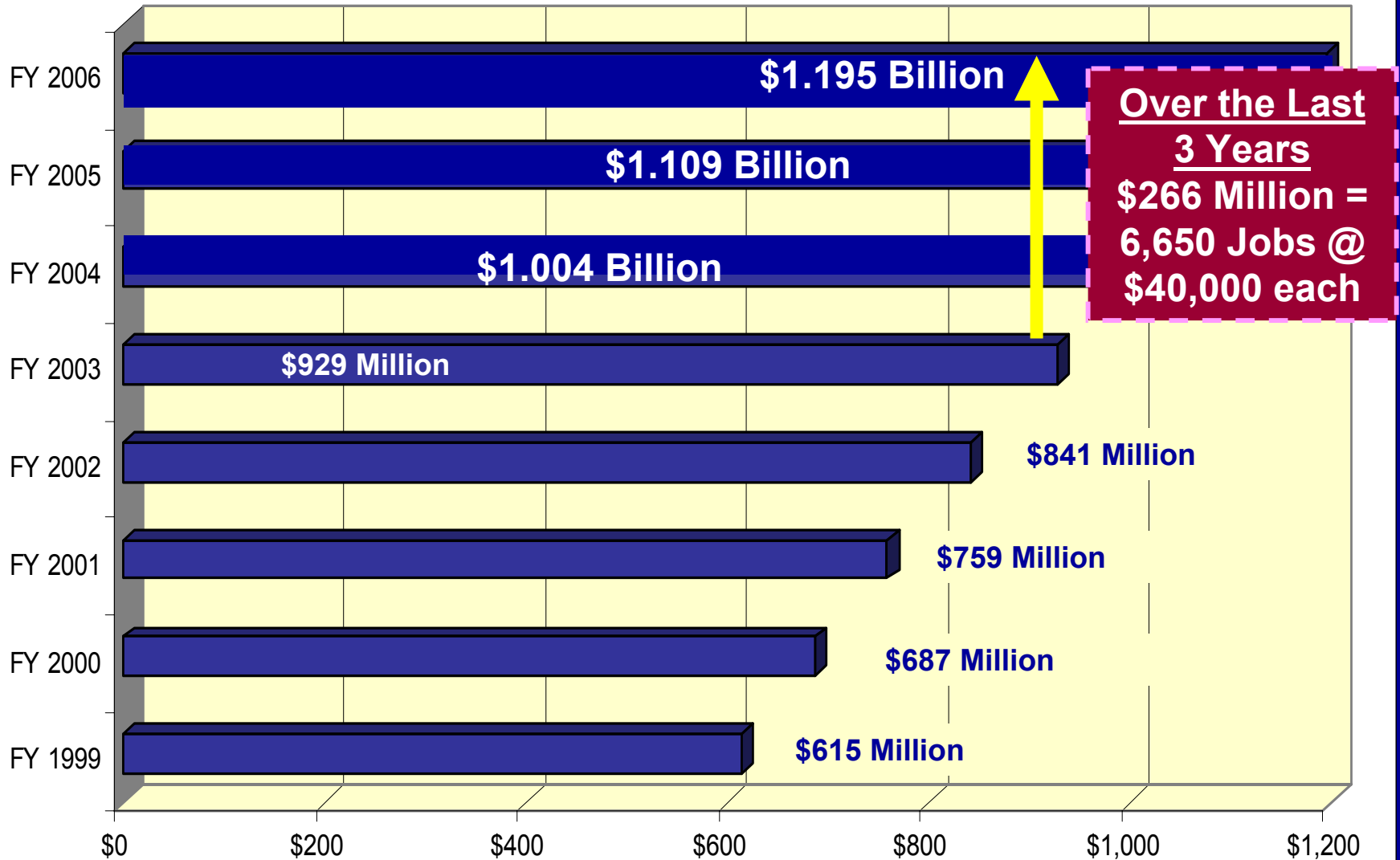
# For State & Local Economies

- KTRS pays monthly:
  - \$91 million in retirement annuity benefits
  - \$14 million in medical benefits
- 39,332 retirees, beneficiaries & survivors
- 93% of KTRS retirees live in Kentucky

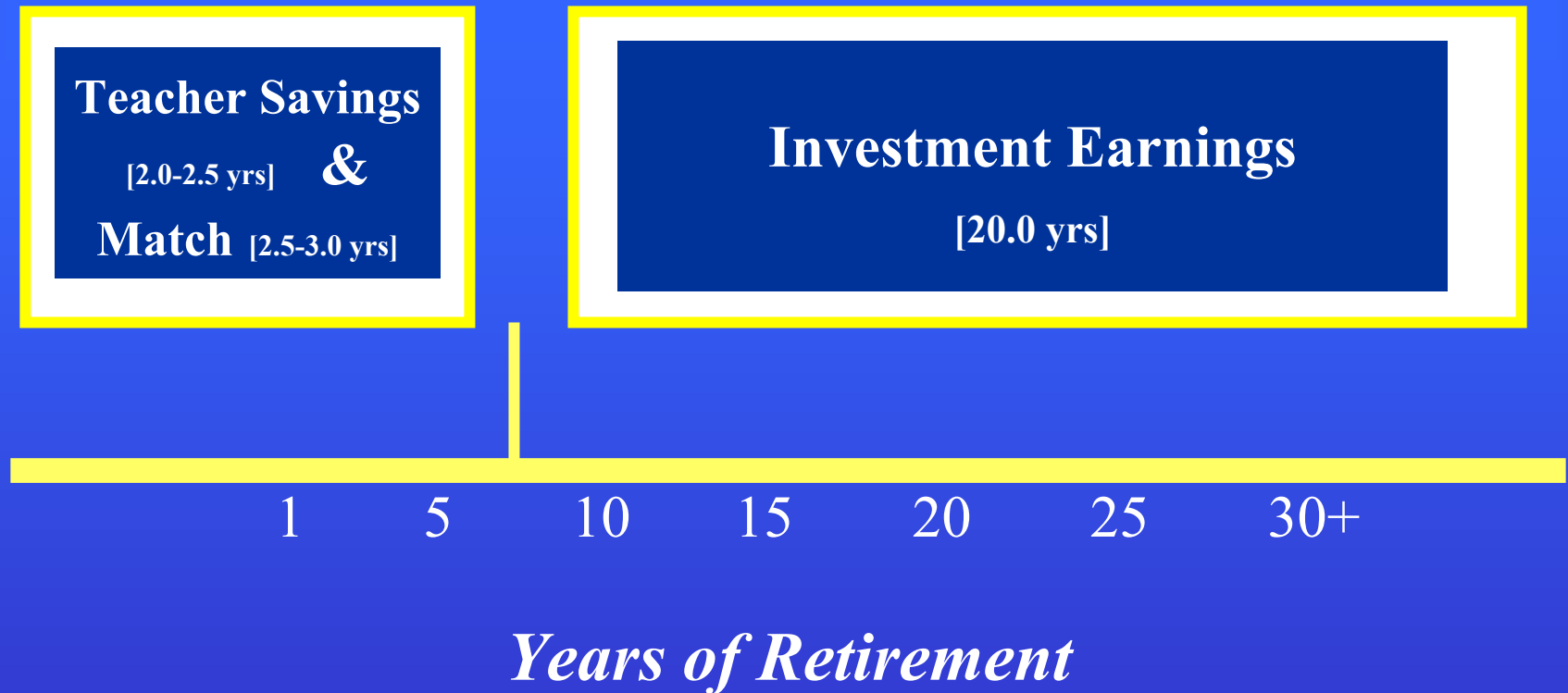


*Retired teachers have a significant economic impact in every county in Kentucky.*

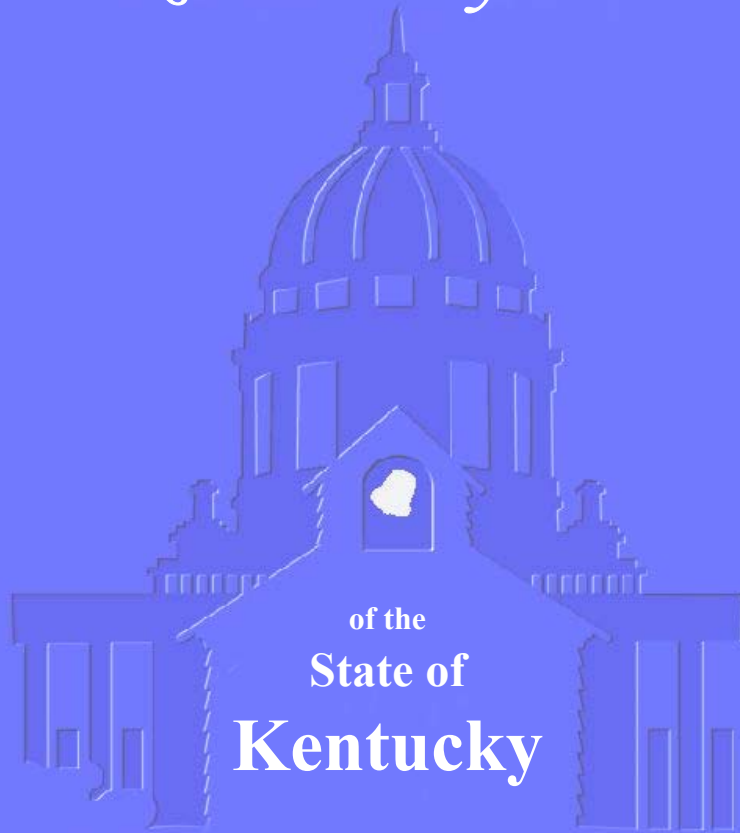
# KTRS Distributes Hundreds of Millions of Dollars Annually



# Teachers' Savings + Employer Match are Invested & Provide Benefits



*Teachers'*  
*Retirement System*



Teachers' Retirement System  
of the State of Kentucky

***Our Members  
Come First!***

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Reach us at . . .

**1.800.618.1687**

**502.848.8500**

[www.ktrs.ky.gov](http://www.ktrs.ky.gov)

***Protecting & Preserving Teachers' Retirement Benefits***